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SUBJECT: PM ADVISOR CATEGORICALLY REJECTS TAX CONCESSIONS
FOR U.S. SCHOOLS

REF: A. RABAT 264
1B. RABAT 171

11. (SBU/NF) Summary: In a meeting to follow up on the Ambassador's February 7 meeting with Prime Minister Jetou on our desire to conclude a school tax agreement governing U.S. schools in Morocco, the Prime Minister's Finance Advisor Abderrezak Lazrak reiterated the Government of Morocco's desire to find a mutually acceptable solution to the problem, but stressed that this must include school fulfillment of their "tax obligations" and cannot include tax concessions for the schools. He termed the existing state of affairs, whereby most of the U.S. schools do not pay payroll or social security taxes for their expatriate employees, an "aberration" that resulted from "errors in administrative management." He rebuffed efforts to draw parallels between American and Spanish and French schools, stressing that the latter are government-affiliated entities, and are the subject of explicit bilateral undertakings between the respective governments. He did indicate that if imposition of taxes imposed an undue burden on the schools, the Government of Morocco would be open to negotiating some sort of official government support for them to compensate. This must be done through the budget, he said, and not through tax concessions. End Summary.

12. (SBU/NF) DCM and Econ Counselor met with Lazrak to follow up on the Ambassador's February 7 meeting with the Prime Minister, where Prime Minister Jetou took on board our concerns about the financial viability of the schools if they were required to pay Moroccan taxes, and said he would ask his financial advisors to explore possible options. Lazrak made clear that while some sort of government support for the schools could be envisaged, the government is not willing to extend tax concessions or a special tax status to the American schools. He reiterated Morocco's previous position that expatriate teachers are protected from double taxation by the bilateral tax treaty, but do not enjoy any other tax privileges. He characterized the fact that most schools have never paid payroll or social security taxes for such employees as an "aberration," resulting from "errors in administrative management." If it were possible, Morocco would seek to hold responsible those officials who permitted such a situation to develop.

13. (SBU/NF) The DCM rejected the notion that U.S. Schools had received favored tax treatment for decades as an administrative error. He noted the schools' historic linkage to the U.S. diplomatic and military presence in Morocco, emphasizing that the status quo resulted from clear, high-level decisions by Moroccan authorities to assure the schools' presence. He emphasized the need for U.S. schools

to be treated similarly to other schools, such as the French, even though in the U.S. schools are not operated by the federal government, as are the French schools.

¶4. (SBU/NF) Lazrak rebuffed the DCM's argument, noting that the French and Spanish schools are government schools benefiting from existing bilateral treaties, whose employees have official government status. In contrast, American schools are private, and their teachers have the same status as a Moroccan professor who teaches in a private capacity in the United States. Just as that professor must pay U.S. taxes, so expatriate teachers here are subject to Moroccan taxes. An agreement such as that desired by the U.S., he argued, would spark a political uproar in parliament, and would also lead to demands from private Moroccan schools for similar privileges.

¶5. (SBU/NF) Lazrak conceded DCM's point regarding the important contribution that American schools make to the bilateral relationship, and to the private education system in Morocco that the PM has sought to encourage. The DCM also underscored the importance of the U.S. schools to other diplomatic missions and to U.S. investors. Lazrak repeatedly asked, however, why it should matter whether the teachers paid tax in the United States or Morocco, since they were protected from double taxation. DCM stressed that while all Americans are subject to U.S. taxation on their worldwide income, application of Moroccan taxes would force the schools to increase salaries, threatening their financial viability. Lazrak asked that we document this point by providing information on just how heavy a burden the payroll taxes would be on the school's budget. If the amount threatened their viability, Lazrak said, the government could consider providing some sort of assistance to compensate for it. He stressed, however, that this would not be through the tax

system. Morocco, he said, is moving away from using such tax benefits for policy purposes. If a cause is worthy of state support, he explained, it must be proposed by a Ministry and included in the national budget. Use of tax concessions or "fiscality" is no longer possible. He added that it might be possible to consider a transition period to permit the schools to adjust to the new situation.

¶6. (SBU/NF) Lazrak was not receptive to the DCM's suggestion that the bilateral tax treaty might be interpreted broadly enough to exonerate teachers temporarily or permanently from payment of Moroccan taxes. All such treaties are linked, Lazrak argued, and if such a precedent were set, others would seek to take advantage of it.

¶7. (SBU) Lazrak shared a copy of the paper prepared for the Prime Minister before the February 7 meeting, which stated *inter alia* that "American schools are subject to existing fiscal legislation, in the same manner as are other establishments carrying out the same activities in Morocco, except as provided for in the application of the provisions of the Convention for non-double taxation....Thus...these schools are subject to taxes. However, they can claim all the fiscal advantages accorded to private educational institutions..., including exoneration from the patent tax for five years, from the start of their activity, and a reduction of 50 percent of the company tax (IS) or of the tax on professional revenue. The note added that the bilateral cultural agreement of 1967 does not provide for any fiscal exoneration in favor of American schools, and went on to explain that for these reasons, the tax office has been seeking to secure payment by the Casablanca American School (CAS) of payroll taxes.

¶8. (SBU/NF) At the conclusion of the meeting, Lazrak and Econ Counselor joined the Prime Minister's meeting with the Millennium Challenge Corporation and Ambassador Riley, which had just begun. The Prime Minister emphasized that he has given instructions that the tax office should take account of the reality of the situation and not impose a change on the schools without warning. He said that the schools should pay, adding that if (as a parent of four children at CAS and

a former member of the CAS board) he had realized that they were not, he would have "warned them to pay attention." Tax authorities should not seek to collect taxes retroactively, however, he added. In both meetings, we stressed that we remain extremely preoccupied by the situation, and will be meeting to review the government's position and follow up.

9 (SBU/NF) Comment: Lazrak's strong stance calls into question whether an agreement of the sort we desire is achievable. At the very least we will have to up the ante and intensify our warnings about the threat to the schools' viability and survival. To the extent that Lazrak did offer the creative solution promised by the Prime Minister in the February 7 meeting, it was the suggestion that some compensatory assistance from the Moroccan government might be provided to ease the burden taxes would impose on the schools. Given the range of needs in the Moroccan educational system, however, it is hard to imagine the Ministry of Education supporting and including in its budget an amount that would make a material difference, and that any such "assistance" would likely be short-term (5 years was mentioned in one discussion) and thus would simply defer the problem. The Mission's school tax agreement goal team will meet this week to consider next steps, and to prepare to brief the schools on recent developments. End Comment.

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Riley